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UNITED STATES DEPARTMENT OF ENERGY
TESTIMONY

BEFORE THE
SUBCOMMITTEE ON WATER AND POWER
COMMITTEE ON RESOURCES
UNITED STATES HOUSE OF REPRESENTATIVES

HOW THE FEDERAL POWER MARKETING ADMINISTRATIONS
ARE IMPLEMENTING THE ENERGY POLICY ACT OF 2005

AND AN
ASSESSMENT OF THE PROPOSED FISCAL YEAR 2007 BUDGET

MARCH 1, 2006

Good afternoon and thank you. Mr. Chairman and members of the Subcommittee, I am pleased to report on the Western Area Power Administration's (Western) implementation of selected sections of the Energy Policy Act of 2005, and to discuss our FY 2007 budget request.

Western, as one of four power marketing administrations (PMAs) within the Department of Energy, markets and delivers electricity primarily generated from hydropower projects located at Federally-owned dams. The transmission systems owned and operated by the PMAs, as an integral part of the nation's interconnected electrical grid, make a significant contribution to ensuring the reliable delivery of the country's energy supply.

Transmission is central to our mission. Western provides reliable, cost-based transmission using an integrated 17,000 circuit-mile, high-voltage system, spanning most of the western half of the United States. While utility regulatory changes and restructuring efforts capture most of the headlines, Western is pursuing a number of initiatives to increase transmission capacity and reliability. Our efforts will support continuing utility industry change, evolving regional needs such as increased interest in renewable resources, and requests from many developers for interconnections to Western's system.

Transmission **system modernization** is a necessity to support cost effective wholesale electricity markets. Western has been progressive in making incremental

improvements to its facilities to enhance grid reliability. We are well served by our continuing commitment to improving our business practices, and successful in our longstanding commitment to jointly plan, develop and finance system enhancements. Robust regional planning processes identifying both economic and reliability needs of the grid are in place in the West, encouraging partnerships for transmission development. Joint ownership of transmission projects has resulted in a highly integrated system that has fostered extensive cooperation and economic coordination among transmission partners.

Western has existing authority to participate in joint transmission projects, and has done so many times. In 2004, Western constructed the Path 15 Upgrade Project in central California to relieve a major transmission bottleneck. We are currently involved in expanding the regional transmission network in eastern Colorado and western Kansas in a partnership with Tri-State Generation and Transmission Cooperative. Funding for these joint efforts is provided primarily by non-Federal partners. The Energy Policy Act of 2005 expands Western authority to use non-Federal funding to construct or participate in the construction of new transmission that will relieve bottlenecks in “national interest electric transmission corridors,” or is necessary to accommodate an actual or projected increase in demand for transmission capacity.

Through state-of-the-art **technology and equipment enhancements**, we continue to improve transmission system capability as well as performance and reliable operation of the Federal system. These enhancements mitigate some constraints without adding

new lines to the grid. We continue to field test high-capacity composite conductors designed to significantly increase the transfer capacity of existing transmission lines in relieving system congestion.

Wind generation and other **renewable energy options** look promising to Western's customers as solutions to increasing energy needs. Wind energy is the world's fastest-growing energy technology. With the recent passage of the Energy Policy Act of 2005, we expect to see average annual wind capacity expanding at rates exceeding 20 percent. The two-year extension of the Production Tax Credit for renewable resources assures that requests for transmission service and interconnection to Western's transmission system, mainly from wind generation developers, will continue. However, reinforcement and system upgrades will be necessary to meet these requests and maintain grid reliability. Western's recently-completed Dakotas Wind Transmission Study (December 2005), authorized and funded by the Energy and Water Development Appropriations Act of FY 2004, provides the engineering analysis which supports this conclusion.

Transmission system modernization is necessary to provide increased **open access** to Western transmission facilities. We have a longstanding practice of allowing third parties to use available capacity in the Federal transmission system, confirmed through our initial Open Access Transmission Tariff filing in 1997, and revised as filed last year to incorporate the Federal Energy Regulatory Commission's (FERC) Large Generator Interconnection standards. Western also joined the Midwest Independent

System Operator (MISO) as a non-transmission owner in 2005, allowing us to better represent our load-serving interests in various MISO committees as a voting member.

The Energy Policy Act of 2005 strengthens the industry **commitment to transmission system reliability** by giving FERC expanded authority to approve and enforce reliability standards. We continue to participate in developing binding reliability standards that are effective in protecting the interconnected electric system. Western is proud of its reliability record, as we consistently exceed national system standards set by the North American Electric Reliability Council.

BUDGET HIGHLIGHTS

In the FY 2007 President's budget, Western continues to disclose all of the funding sources required to accomplish its program. Western's FY 2007 Construction, Rehabilitation, Operation and Maintenance (CROM) budget request totals \$688.5 million, including \$212.2 million from appropriated dollars. The **total funding** requirement increases \$115.6 million from the FY 2006 enacted program of \$572.9 million, primarily due to increases in purchase power and wheeling (PPW) caused by higher prices and increasing "custom product" purchases for the Central Valley Project customers. The **appropriated request** decreases \$19.5 million from the FY 2006 level of \$231.7 million, as greater use of customer advances is assumed.

In addition to the \$212.2 million net appropriated funds requested for the CROM Account, the request assumes \$274.9 million in offsetting collections for normal and drought-related purchase power and wheeling (PPW) requirements, and \$3.7 million in receipts from the Colorado River Dam Fund for Boulder Canyon Project activities. Also included is \$197.7 million from alternative customer financing. Of this, \$10.7 million is estimated for requirements in Program Direction and Operation and Maintenance, \$33.9 million for Construction and Rehabilitation activities and \$153.1 million for the PPW program.

The appropriated CROM request includes a non-reimbursable contribution of \$6.9 million to the Utah Mitigation and Conservation Account.

The use of mandatory offsetting collections from the Spectrum Relocation Fund (SRF) is not included in Western's budget amounts. The SRF, established by the 2004 Commercial Spectrum Enhancement Act, will provide non-reimbursable funding for relocating Federal systems from certain spectrum bands to accommodate commercial use. Western estimates the multi-year costs of relocating its communications systems at \$106.7 million.

The following table shows all funding sources for the **FY 2007 total Western program**.

BUDGET REQUEST SUMMARY
(Dollars in Thousands)

<u>Fund/Activity</u>	<u>FY 2006 Funding</u>	<u>FY 2007 Request</u>	<u>Dollar Change</u>	<u>Percent Change</u>
CONSTRUCTION, REHABILITATION, OPERATION AND MAINTENANCE (CROM)				
Program Direction ¹	\$143,667	\$147,748	+\$4,081	+2.8%
Operation and Maintenance ¹	47,295	45,734	-1,561	-3.3%
Construction and Rehabilitation	53,957	60,205	+6,248	+11.6%
Purchase Power and Wheeling (PPW)	321,397	427,931	+106,534	+33.1%
Utah Mitigation and Conservation	6,633	6,893	+260	+3.9%
Subtotal, CROM Program	\$572,949	\$688,511	+\$115,562	+20.2%
Use of Alternative Financing ²	-58,135	-197,741	-139,606	+240.1%
Offsetting Collections – PPW (P. L. 109-103)	-279,000	-274,852	+4,148	-1.5%
Offsetting Collections from Colorado River Dam Fund P.L. 98-381)	-4,162	-3,705	+457	-11.0%
TOTAL, CROM Budget Authority (BA) Request	\$231,652	\$212,213	-\$19,439	-8.4%
 FALCON AND AMISTAD OPERATING AND MAINTENANCE FUND	 \$2,665	 \$2,500	 -\$165	 -6.2%
 COLORADO RIVER BASINS POWER MARKETING FUND (CRBPMF)	 \$171,268	 \$221,081	 +\$49,813	 +29.1%
Offsetting Collections Realized	-194,268	-244,081	-49,813	+25.6%
TOTAL, CRBPMF BA request	-\$23,000	-\$23,000	\$0	0.0%
 TOTAL, Western Area Power Administration BA	 \$211,317	 \$191,713	 -\$19,604	 -9.3%

¹ Funding amounts include activities of the Boulder Canyon Project which are funded through Colorado River Dam Fund receipts via a reimbursable agreement with the Department of the Interior as authorized in P. L. 98-381.

² FY 2006 and FY 2007 CROM funding amounts include \$42,397,000 and \$153,079,000 respectively, for planned alternative financing of the PPW subprogram. In addition, FY 2006 and FY 2007 CROM funding amounts include \$15,738,000 and \$44,662,000, respectively, for planned alternative financing of Western's Operation & Maintenance, Construction and Rehabilitation, and Program Direction subprograms.

The following table shows **the FY 2007 appropriations request**.

FY 2007 Request
(Dollars in Thousands)

Fund Activity	FY 2006 Appropriation	FY 2007 Request
Program Direction	\$125,930	\$135,146
Operation & Maintenance	\$45,672	\$43,897
Construction & Rehabilitation	\$53,417	\$26,277
Purchase Power & Wheeling	---	---
Utah Mitigation & Conservation	\$6,633	\$6,893
Total Program	\$231,652	\$212,213

Western's FY 2007 **Program Direction** (PD) request of \$147.7 million (comprised of \$135.1 million in appropriated funds, customer advances of \$9.6 million and \$3.0 million in power receipts) provides compensation and related expenses for our workforce to market power as well as plan, design, construct, operate and maintain the high-voltage interconnected transmission system and associated facilities.

The total PD program increased \$4.1 million, or 2.8 percent above the FY 2006 level (\$143.7 million), predominantly due to an increase of \$6.2 million in salaries and benefits, a shift of 10 full-time equivalent staff (FTE) from the Colorado River Basins Power Marketing Fund to support regular operation and maintenance activities and an increase of 5 FTE for various support functions throughout Western. These increases are offset by decreases in support services and other related expenses of \$3.1 million to contain costs in Western's indirect activities.

Western has established formal workforce planning activities as the foundation for its Human Capital Management Program to ensure we have "the right people in the

right place at the right time” to sustain its exemplary customer service ethic and power system reliability record.

Western’s FY 2007 **Operation and Maintenance** request is \$45.7 million, comprised of \$43.9 million in appropriated funds, \$1.1 million in customer advances and \$0.7 million in power receipts. This is a 3.3 percent decrease from the FY 2006 program, including activities funded directly from the Colorado River Dam Fund and customer advances. The decrease is primarily attributable to extraordinary needs in the FY 2006 budget, and/or facility replacement requiring larger efforts, resulting in projects falling under the Construction and Rehabilitation program.

Western is requesting \$60.2 million (comprised of \$26.3 million in appropriated funds and \$33.9 million in customer advances) for its FY 2007 **Construction and Rehabilitation** program for high-priority replacements and upgrades of system equipment and facilities to sustain reliable power deliveries. Although Western’s FY 2007 request is \$6.2 million above the FY 2006 level (\$54 million), the FY 2007 budget authority of \$26.3 million decreased by 51 percent from FY 2006 (\$53.4 million). The remaining \$33.9 million (56 percent of the total program) will require customer-advanced funding for necessary planned upgrades.

During this past year, we weathered what Mother Nature tossed at us, and were reminded of the value of controlling costs and implementing improvements in how we do business. While we were fortunate in the West not to have experienced the devastating

impacts of recent hurricanes, the prolonged **drought** continues to test our ability to meet our contractual power commitments in a cost effective manner.

The FY 2007 **Purchase Power and Wheeling** program (\$427.9 million) has grown 33.1 percent from FY 2006 (\$321.4 million) to further implement the Central Valley Project's Post 2004 Marketing Plan, and mitigate drought impacts to hydropower generation affecting the Pick-Sloan Missouri Basin Program. Program increases are funded through alternative financing methods. The request for authority to use offsetting PPW collections (receipts) has dropped slightly from \$279 million in FY 2006 to \$274.9 million in FY 2007, with the program increase in FY 2007 funded through net billing and reimbursable funding of \$148.1 million and \$5 million in customer advances.

Because appropriations are only about 20 percent of Western's total funding picture, the ability to fund annual PPW expenses with power sales receipts has assisted us in long-term planning for mission critical operations.

Starting in FY 2007, the interest rate for new obligations incurred by Western for power-related investments will be set at the rate equivalent to what Governmental corporations pay when borrowing in the market, identified as the **agency rate**. This will align interest rates on certain investments with those paid by Bonneville Power Administration. This new interest rate will apply only to investments whose interest rates are not set by law. All Western investments currently in service will continue to retain

existing interest rates. This will result in a rate increase of less than 1 percent, beginning in Fiscal Year 2007.

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Western is "getting things done"... regional planning is occurring and transmission lines are being rebuilt as we continue to solve transmission and reliability issues to facilitate the use and future expansion of the transmission grid in the West.

Thank you, Mr. Chairman. I would be pleased to answer any questions that you or the Subcommittee members may have.